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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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A Case For A Recovery . . .

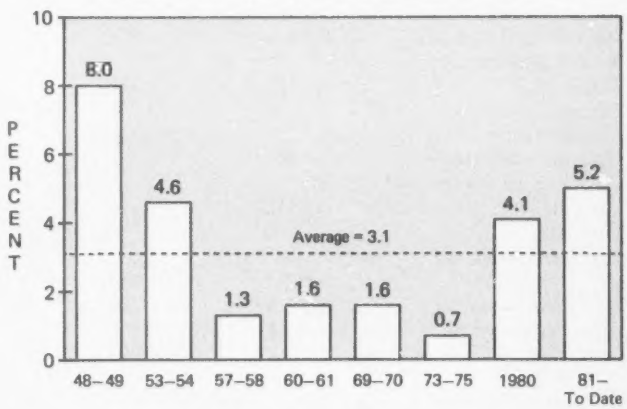
The New Year begins with the U.S. economy still feeling the effects of recession while joblessness remains painfully high. It is thus appropriate to ponder what 1983 has in store for us. The question on everyone's mind is: Will the pace of business pick up soon and the long awaited recovery finally begin? At this time last year many economists were forecasting that an upturn would begin in 1982; they obviously were disappointed. But this year, predictions of an imminent upturn would appear to be based on more promising statistics, since the underpinnings for at least a modest recovery are already becoming visible.

The outlook for the economy was truly bleak last January (Financial Digest—January 11, 1982). The government's index of leading economic indicators was in a protracted slide; December marked the eighth consecutive month of declines. Housing starts were running at a seasonally adjusted annual rate of 882,000 units, almost 40 per cent below the level of December, 1980, and the issuance rate of building permits—a harbinger of future construction activity—offered little hope for an upturn. With mortgage interest rates on 30-year conventional loans averaging about 17½ per cent in the final quarter of 1981, sales of existing homes plummeted, leaving builders with almost nine months' supply of unsold homes. Automobile sales in the last two months of 1981 had been running only at a 5.1 million unit clip, down from a 6.6 million unit rate in the same two months of the previous year.

. . . But It May Be A Long Road Back

In contrast, 1983 is starting on a much brighter note. Interest rates have dropped sharply, sparking a modest but significant upturn in the interest rate-sensitive categories of consumer spending, mainly automobiles and housing. This development has characterized the early stages of every recovery in the past 30 years. What is more, the index of leading economic indicators has now risen in seven of the last eight months after bottoming out in March. Traditionally, recovery has begun after this index has advanced about three months. However, exceptional weakness in net exports and the capital spending sector has delayed the usual response. Significantly, the average increase in the leading indicator index before the onset of the past seven recoveries was about three per cent; this time the rise in the index is 68 per cent higher (see chart). Only in advance of one recovery—following the 1948-49 recession—did the index have to post an increase of a greater magnitude before expansion began.

RISE IN THE INDEX OF LEADING INDICATORS
BEFORE ONSET OF RECOVERY FROM POSTWAR RECESSIONS



Following a disastrous first ten months of 1982, automobile sales jumped to seasonally adjusted annual rate of 6.5 million units in the past 50 selling days, almost a third higher than a year ago. This improved performance can be attributed to the temporary financing arrangements offered by Detroit—but not entirely. The average age of U.S. cars now on the road is about seven years—the oldest in 30 years, while the cost of operating a vehicle has declined as gasoline has become less expensive. These factors combined have also boosted the demand for new cars—particularly the larger, more comfortable cars with less emphasis on fuel efficiency.

An even more powerful force behind the coming upturn is housing. As a result of the drop in

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mortgage interest rates to the 13 per cent range for conventional 30-year mortgages and 12 per cent for government-backed VA and FHA mortgages, housing starts and home sales are up substantially compared with a year ago. In the two months ending November, housing starts were almost 50 per cent higher than in the same period of the previous year. Similarly, sales of new homes are now running almost 50 per cent higher than a year ago, with builders' inventories of unsold homes dropping to about five months' supply. This practically assures a good-sized gain for real residential spending in the GNP accounts in the first quarter of 1983.

The decline in interest rates and the flattening in prices have substantially enhanced consumers' ability to afford autos and houses. Monthly payments on purchases made today may be lower than on those made a year ago. For example, the 4½ percentage point drop in mortgage rates has resulted in a saving of almost $200 per month on a mortgage for a typically priced $70,000 home assuming a 25 per cent down payment. This now enables about one-third of all U.S. households to purchase first homes—using as a rule of thumb that not more than 25 per cent of gross family income should be used to service the loan—compared with only 15 per cent at this time last year. The saving on automobile purchases is much less but still significant. The 6½ percentage point drop in interest rates offered by

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/22/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	147.274	+ 1.019	+ 8.443
Loans to Depository Inst.	.547	– .156	– .073
Float	2.978	+ .604	– 1.021
Total Reserve Bank Credit	160.546	+ 1.830	+ 7.170
Treasury Deposits with Federal Reserve Banks	2.959	– .382	– .256
Currency Outside Banks	137.993	+ 1.923	+ 9.128
Member Bank Reserves:			
Required	42.047	+ .549	+ .301
Excess (Deficiency)	.274	– .319	– .109
Total Reserves Held	42.321	+ .230	+ .192
Net Borrowed Reserves	.046	+ .149	+ .040
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	107.442	+ 1.941	+11.095
Monetary Aggregates†		**% Change Since Three Months Ago***	**% Change Since Year Ago**
M1 (12/15/82)	480.3	+ 16.2‡	+ 8.9‡
M2 (November '82)	1,987.4	+ 8.3	+ 9.8
M3 (November '82)	2,397.9	+ 7.0	+ 10.3
L (August '82)	2,858.2	+ 12.1	+ 11.7

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 12/30/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.90%	8.00%	8.10%
* Federal Agencies	8.15	8.25	9.55
* Project Notes—Taxfree (46% Taxable Equivalent)	8.70	9.26	9.63
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.60	8.65	9.25

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.75%	Jan.	8.90%
15- 29 days	8.75	Feb.	8.60
30- 59 days	8.63	Mar.	8.60
60- 89 days	8.50	Apr.	8.55
90-179 days	8.38	May	8.55
180-239 days	8.25	Jun	8.40
240-270 days	8.25		

‡Industrial Paper—Prime		†Federal Funds	
30- 89 days	8.75%	Effective Rate	10.63%
90-120 days	8.50		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'82	$ 3,088	$ 3,045	$ 2,981
Gross National Product (1972 Dollars)*	3rd Q'82	$ 1,481	$ 1,478	$ 1,510
Percent Change, Annual Rate	3rd Q'82	0.7	2.1	2.2
Change in Consumer Prices (all urban consumers)*	Nov '82n	1.2%	6.0%	6.0%
Change in Producer Prices*	Nov '82	7.2%	6.0%	6.0%
Civilian Employment (Thousands of Persons)†	Nov '82	99,032	99,093	100,172
Unemployment as % of Civilian Labor Force†	Nov '82	10.8%	10.4%	8.3%
Personal Income*	Nov '82n	$ 2,621	$ 2,611	$ 2,499
Leading Indicators Composite Index (1967=100)†	Nov '82n	131.7	130.7	128.2
Industrial Production Index (1967=100) †	Nov '82	135.6	136.2	146.3
Net Change in Consumer Installment Credit†	Oct '82	–$ 0.32	$ 1.09	$ 1.00
U.S. Merchandise Trade Balance †	Nov '82n	–$ 4.09	–$ 5.33	–$ 4.42
Plant and Equipment Expenditures*	1st Q'83	$316.40(a)	$324.47(a)	$327.72
Private Housing Starts (Thousands of Units)*	Nov '82	1,428	1,129	860
New Construction Expenditures*	Oct '82	$ 234.9	$ 232.4	$ 230.8
Total Business Inventories†	Oct '82	$ 515.1	$ 515.4	$ 518.2
Total Business Sales†	Oct '82	$ 332.1	$ 339.5	$ 346.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

the Big Three's finance arms has reduced monthly payments on a $7,000 three-year car loan by $22.

Consumers apparently have the means to turn the rise in autos and housing sales into a broad-based recovery. Their savings now represent 6.2 per cent of income which is within range of historical averages. Many will soon receive income tax refunds as a result of last July's tax cut, because employers' withholding tables did not adjust fully for the reduction in tax rates. What is more, consumers' outlook about their future economic situation has recently brightened—albeit slightly—and more people intend to buy homes, autos, appliances and some home furnishings within the next six months, reports the Conference Board. However, persistent worries about job security are causing many people to keep their wallets closed. In addition, the decline in the rate of inflation has taught them that if they hold off on their purchases for a while, some prices may actually go down as hard-pressed merchants are forced to offer deep discounts to move their merchandise.

In sum, there are some signs of an upswing, but any recovery in 1983 will be slow. Housing, autos and defense spending will provide the initial impetus. But continued weakness in capital spending and net exports will act as a drag for quite some time. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/15/82)	136,419	– 3,424	+ 3,030
New York City (12/15/82)	37,097	– 231	+ 2,520
Commercial Paper (12/15/82)	172,377	– 619	+ 6,425*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/15/82)	215,845	+ 19	+22,086
New York City (12/15/82)	61,025	– 291	+ 5,939

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/15/82)	504,069	+ 1,205	+34,755
New York City (12/15/82)	120,788	– 717	+ 9,253

Financial Markets

	Thursday 12/30/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.30%	+ .11	– 3.40
180-Day Bills†	8.55	+ .08	– 4.57
Longest Bills†	8.75	– .05	– 4.80
Recent Issues:			
9³/₈s 12/31/84 (When Issued)	9.52	0.00	
10s 12/31/86 (When Issued)	10.03	0.00	
10¹/₂s 11/15/92	10.42	+ .01	
10³/₈s 11/15/12	10.48	– .01	
Municipals:			
Bond Buyer–20 Bond Index*	9.56%	– .28	– 3.74
Blue List Total ($ Million)	$1,047	– $300	– $ 175
30-Day Visible Supply ($ Million)	$ 955	+ $ 58	– $ 832
Total	$2,002	– $242	– $1,007
Corporates:			
Moody's Aa Composite (12/28/82)	12.98%	– .09	– 2.37
30-Day Visible Supply ($ Million) ‡	$ 757	–0–	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,047.37	+ 2.30	+ 174.27
Transportation	448.06	+ .89	+ 69.62
Utilities	119.46	+ 1.43	+ 10.12
65 Stocks	409.25	+ 1.46	+ 62.23
Standard and Poor's 500 Stocks	140.33	+ .61	+ 18.03
N.Y.S.E. Composite Index	80.79	+ .40	+ 9.89
N.Y.S.E. Avg. Daily Vol. for Week (000's)	58,775	–12,868	+ 26,082

* 46% Taxable equivalent 17.70%.
‡Series redefined: Historical data not available.
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Thursday 12/30/82	Week Ago
Overnight	8.38%	8.38%
1 month	9.06	9.25
3 month	9.19	9.31
6 month	9.38	9.69
1 year	9.63	9.75
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	12.00%	12.20%
Long Term (7 to 15 yrs.)	12.10	12.25

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/30/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02141	46.70
Canada	.8091	1.2360
Denmark	.1192	8.3900
Francc	.1489	6.7175
Germany	.4216	2.3718
Italy	.0007313	1367.40
Japan	.004291	233.05
Mexico	.006250	160.00
Netherlands	.3809	2.6255
Switzerland	.5023	1.9910
U.K.	1.6205	.6171

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